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FISCAL IMPACT STATEMENT

LS 6992 | **NOTE PREPARED:** Apr 1, 2003
BILL NUMBER: HB 1219 | **BILL AMENDED:** Mar 31, 2003

SUBJECT: Provisional Tax Bills and Emergency Borrowing.

FIRST AUTHOR: Rep. Kuzman | **BILL STATUS:** As Passed - Senate
FIRST SPONSOR: Sen. Landske

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: (Amended) This bill establishes temporary provisional property tax billing procedures for a county in which the general reassessment is not completed by the statutory completion date. It requires a county to distribute collections to taxing units in the county within 51 days after the property tax due date. The bill permits the Department of Local Government Finance (DLGF) to adopt emergency rules before January 1, 2005. This bill also adds a provision concerning temporary borrowing by school corporations.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) *School Loans*: The state would not pay property tax replacement credits or homestead credits on the levy used to repay these loans.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Provisional Tax Statements*: If a county that will have late property tax billings in 2003 elects to use provisional statements, the distributions to local units and school corporations could be made in a more timely manner. On-time distributions could reduce or eliminate the need for any short-term debt that units may otherwise need to assume for cash flow, and could consequently reduce interest payments.

Counties that choose to send provisional statements would incur additional administrative costs. At a minimum, these counties would have additional computer programming costs to compute the tax due for the provisional statement and then later to reconcile the provisional payments with the actual liabilities. Since it would be up to the county treasurer to make the election to send provisional statements, the treasurer would decide if it is a cost-effective measure or not.

School Loans: Under current law school corporations may borrow money in the form of temporary loans for cash flow purposes in anticipation of state tuition support and property tax distributions to be received in June and December. The loan principal may not exceed 80% of the taxes and tuition support to be collected in the six-month period and must be repaid before June 30 or before December 31 of the same year.

For temporary loans that mature before December 31, 2005, this bill would change the maximum loan amount to the greater of (1) the highest estimated cash flow deficit for the period or (2) 80% of the total budget for the fund receiving the loan. In actuality, the current loans are limited to the lesser of 80% of revenues or the highest estimated cash flow deficit for the period. So this bill would allow the greater rather than the lesser of these two amounts.

In addition, this bill would allow school corporations to extend the due date of a temporary loan by up to six months if an emergency exists. During a year of reassessment, the June distribution of property taxes may be made late. In the case of the current reassessment, some December settlements could also be made late. If a settlement is late, the school might not have the revenue to repay a temporary loan on the current due date. This provision expires on July 1, 2005.

The increase in the borrowing capacity and extension of maturity dates could increase interest payments. The interest on loans can be paid from the school debt service fund. During the 2001 calendar year, schools repaid temporary loans totaling $486.6 M between July and December of 2001 and temporary loans totaling $57.6 M between January and June 2001. The interest paid on the temporary loans was $21.1 M. During the last reassessment, the temporary loans schools repaid increased by 23.4%: from $543.5 M in CY 1995 to $721.3 M in CY 1996.

Explanation of Local Revenues: (Revised) *Provisional Tax Statements*: Currently, property tax bills are sent out in March or April with two equal payments due on May 10 and November 10 of a year. Tax bills must be sent at least 15 days before the first due date. As a result of the ongoing work to complete the current reassessment, many counties will not be able to send tax bills out in a timely manner in 2003, the result being later payment of property taxes and later distributions to local units and school corporations in 2003.

This bill would allow county treasurers to send provisional tax statements in 2003 if the county auditor does not deliver the abstract to the county treasurer by March 16, 2003. Provisional tax statements in 2003 would be based on 50% of the taxpayer's 2002 property tax liability. However, upon request of a county auditor, the DLGF Commissioner would be able to authorize provisional statements based on up to 70% of the 2002 billing amount. The Commissioner may approve different percentages for different property classes.

Property taxes that are billed on a provisional statement in 2003 would be due on June 15, 2003 or another date designated by the DLGF Commissioner upon request of the county treasurer. The county treasurer would send a reconciling statement to each taxpayer after the abstract is received and final taxes are calculated. If the amount paid on the provisional statement is less than the actual tax bill, the taxpayer would have 30 days after receipt of the reconciling statement to pay the difference. The DLGF Commissioner may designate a later due date upon the county treasurer's request. Payment would, in any case, be due before the May 2004 tax installment is due. A taxpayer may claim a refund of any overpayment.

The bill would require county auditors to distribute the tax collections to the appropriate units within 60 days after the due date of a provisional or reconciling tax statement.

State Agencies Affected: Department of Local Government Finance; State Board of Accounts.

Local Agencies Affected: Local governmental units; School corporations.

Information Sources:

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